MOODY'S ASSIGNS Aa3 TO LYNCHBURG'S (VA) $24M G.O. BONDS, SERIES 2006 AND A MIG 1 TO THE CITY'S $16.5M BANS, SERIES 2006

Aa3 AFFIRMATION AFFECTS $186M IN PARITY DEBT OUTSTANDING, INCLUDING CURRENT ISSUE

Lynchburg (City of) VA
Municipality
Virginia

Moody's Rating

Issue	Rating
General Obligation Public Improvement Bond Anticipation Notes, Series 2006	MIG 1
Sale Amount $16,500,000	
Expected Sale Date 04/25/06	
Rating Description Bond Anticipation Notes	
General Obligation Public Improvement Bonds, Series 2006	Aa3
Sale Amount $24,200,000	
Expected Sale Date 04/25/06	
Rating Description General Obligation	

NEW YORK, April 17, 2006 -- Moody Investors Service has assigned a Aa3 rating to the City of Lynchburg, Virginia's $24.2 million General Obligation Public Improvement Bonds, Series 2006 and a MIG1 to the city's $16.5 million General Obligation Public Improvement Bond Anticipation Notes, Series 2006.

Concurrently, Moody's has affirmed the Aa3 rating on the city's $186 million of previously issued parity debt. Both series are secured by the city's general obligation unlimited property tax pledge. The Aa3 long-term rating reflects the city's modestly growing economic base; satisfactory financial performance in the face of state cuts and expenditure pressures; and above average debt levels. The MIG1 additionally reflects demonstrated market access. Proceeds of the bonds will fund transportation, school and various other city capital projects while the BANs will fund water and sewer system improvements.

DEMONSTRATED MARKET ACCESS

Moody's believes the city has demonstrated market access as is evident in the 6 bids received at prevailing market rates on the city's two most recent financings. The BANs, which mature July 15, 2007, are ultimately secured by the city's general obligation pledge and are expected to be refinanced as market conditions dictate with long term general obligation bonds.

GROWING ECONOMIC BASE SUPPORTED BY NEW CAPITAL INVESTMENT

Moody's expects the city's diverse economic base will continue to grow given ongoing private investment encouraged through aggressive economic development efforts. A regional commercial center in western Virginia, Lynchburg has experienced healthy 5.9% average annual growth in assessed valuation over the last five years and its tax base now exceeds a sizeable $4.3 billion. This reflects both the introduction of new industry and expansion of existing industries, including a Frito Lay (subsidiary of PepsiCo, Inc. - rated Aa3) food processing plant, the BWX Technologies (Nuclear Fuel), and the healthcare facilities of Centra Health (rated A1). Recent expansion of existing business reflects the city's economic development strategy focused on encouraging firms already located in the city to remain and expand their facilities. These programs include the development of two publicly owned industrial parks, the creation of a small-business assistance center with loans and low-cost office space, and the use of various targeted incentives including subsidized land, and infrastructure and cash grants. The city has also invested in a variety of redevelopment projects designed to revitalize the downtown area by attracting new commercial tenants to the area. This effort included renovation of historical commercial space into artist lofts and living space as well as establishment of a children's museum in another historical warehouse. In addition to a number of other manufacturing firms, the city contains a major medical center, a large regional shopping mall, as well as several big box retailers, all of which serve the surrounding areas. The city also includes 5 colleges, with an enrollment of in excess of 15,500 including Liberty University, which has aggressive growth plans reportedly intended to expand the schools 9,000 student body 1,000 students per year throughout the near term. While the last census reported that Lynchburg's wealth indicators were below state norms, the strength of the local economy is reflected in a healthy full value per capita of $63,611-moreover, the presence of a sizable student population tends to negatively skew wealth indices.

HISTORY OF SOLID FINANCIAL PERFORMANCE CHARACTERIZED BY STABLE RESERVE LEVELS AND DIVERSE REVENUE STREAMS

While Moody's expects the city's solid financial performance to continue, given consistently ample reserve levels and diverse revenue streams, we recognize that the city faces a host of expenditure pressures in the coming years. The city has maintained healthy reserves despite a draw down of approximately $5 million in fiscal 2001 for non-recurring capital expenditures. While the city saw an addition to fund balance of approximately $1.35 million in fiscal 2002, fiscal 2003 saw a modest decline of $724,000 due to the combined impact of state funding cuts and an increase in compensation expenditures. However, the fiscal 2003 budget included approximately $3.8 million in non-recurring capital expenditures that provided some financial buffer. The City beat initial projections for fiscal 2004 and ended with a $1.9 million operating surplus reflecting sales tax and property tax receipts in excess of budget. The General Fund also provided $4.2 million in capital pay-as-you-go financing in fiscal 2004.

Fiscal 2005 results reflect a $2.6 million operating surplus driven largely by positive expenditure variance as revenues fell modestly below budget. General Fund Balance reached $26.5 million or 17.2% of General Fund revenues. On an undesignated basis fund balance was $17.5 million (11.3% of General Fund revenues), in excess of the city's policy target of 10%. Fiscal 2006, which ends June 30, is expected to yield an operating surplus including a $5.5 million one time revenue associated with the city moving to twice a year billing for the Personnel Property Tax which is expected to be expended in the subsequent fiscal year for non-recurring capital costs. Net of this amount, year to date results reflect an operating surplus in excess of $2.5 million.

WITH SUBSTANTIAL ENTERPRISE SUPPORT, DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes that the city's debt burden (4.1% of full valuation) while above average will remain manageable, despite significant additional borrowing plans, given rapid retirement of principal, ongoing growth in assessed valuation, and expected enterprise support of a significant portion of current and future long-term debt. Debt burden is net of $116.8 million of self-supporting water and sewer debt, almost equally divided between general obligation and revenue bonds. Principal is repaid at an above average pace (62.4% in ten years) and Moody's believes the city's growing tax base will adequately accommodate future borrowing needs. The city has a five-year capital plan in the amount of $216 million, of which approximately $101 million is projected to be financed through the issuance of long-term debt over the next five years. A substantial portion of debt has been issued to comply with the city's combined sewer overflow (CSO) special order requirements. In addition to the sizeable borrowing plans, the sewer system, although self-supporting, currently faces a number of other challenges, including growing expenditures and high rates, which are in danger of becoming uncompetitive. To address this issue, the city restructured a portion of the outstanding sewer debt through a zero-interest state revolving loan in order to extend maturities and improve coverage margins. This action freed up an additional $20 million in debt capacity to devote to CSO projects. Moody's expects operations will be sufficient to maintain the city's general obligation credit strength, given the system's history of stable financial operations and strong management.

KEY STATISTICS

Population (2005 estimate): 68,000

2005 Full Valuation: $4.3 billion

Full Value Per Capita: $63,611

Debt burden: 4.1 %

10-Year Payout: 62.4%

General Fund Balance (2005): $26.5 million (17.2% of General Fund revenues)

Per capita income as % of state (1999): 76.2%

Median family income as % of state (1999): 75.4%

Post sale parity debt outstanding: $187 million

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